



GOVERNOR ARNOLD SCHWARZENEGGER

October 2, 2008

The Honorable Henry M. Paulson, Jr.  
Secretary of the Treasury  
1500 Pennsylvania Avenue, NW  
Washington, DC 20220

Dear Mr. Secretary,

First of all, let me commend you for your leadership to enact emergency economic stabilization legislation. This credit crisis has the power to grind the U.S. economy to a halt if swift and decisive action is not taken immediately. The federal rescue package is not a bailout of Wall Street tycoons – it is a lifeboat for millions of Americans whose life savings, businesses, retirement plans and jobs are at stake. I have communicated this message to the entire California Congressional delegation and will continue to press for passage of an emergency rescue plan.

Like many other states, California is feeling the enormous effects of this crisis on our economy. California's economy is dynamic and resilient, but also uniquely sensitive to national and international economic conditions and fluctuations in the financial markets. The credit crisis has frozen investment and commerce, forcing businesses and families to stop purchasing goods and services. This has resulted in tens of thousands of lost jobs and billions of dollars in lost tax revenue to the state.

Most immediately, California and a number of other state and local governments are experiencing the lack of liquidity in the credit markets firsthand. Many states and local governments have been unable to secure financing for bond offerings and for routine cash flow used to make critical payments to schools, local governments and law enforcement. While some states may be able to absorb a delay or obtain high-interest financing through private banks, California is so large that our short-term cash flow needs exceed the entire budget of some states. We expect to issue \$7 billion in Revenue Anticipation Notes for short term cash flow purposes in a matter of days.

Absent a clear resolution to this financial crisis that restores confidence and liquidity to the credit markets, California and other states may be unable to obtain the necessary level of financing to maintain government operations and may be forced to turn to the Federal Treasury for short-term financing.

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The economic fallout from this national credit crisis continues to drain state tax coffers, making it even more difficult to weather the continuation of frozen credit markets for any length of time. I will continue to do all I can to encourage passage of the emergency rescue plan.

Sincerely,

A handwritten signature in black ink, appearing to read "Arnold Schwarzenegger", written in a cursive, stylized script.

Arnold Schwarzenegger